American Public Power Association
Council of Development Finance Authorities
Council of Infrastructure Financing Authorities
Government Finance Officers Association
Large Public Power Council
National Association of Counties
National Association of Higher Educational Facilities Authorities
National Association of State Treasurers
National Council of Health Facilities Finance Authorities
National League of Cities
US Conference of Mayors

November 16, 2004

Mr. Keith Rake
Deputy Assistant Commissioner
Bureau of Public Debt
U.S. Department of the Treasury
P.O. Box 396
Parkersburg, WV 26106-0396

DOCKET NUMBER: BPD-02-04

Dear Mr. Rake:

On behalf of the thousands of local and state governments and issuers of tax-exempt bonds for public purposes represented by the associations above, we would like to comment on the proposed regulations set forth on September 30, with regard to the use of State and Local Government Securities (SLGS).

Our members are the SLGS subscribers, thus there is no better constituency to comment on the proposed changes. We also join in the support of the more extensive comments submitted by the Government Finance Officers Association, the Large Public Power Council, The Bond Market Association, the Healthcare and Higher Ed Finance Authorities, and the National Association of Bond Lawyers.

SLGS were developed by the Department of the Treasury as a unique tool for state and local governments due to stringent arbitrage restrictions imposed upon them by Congress. SLGS are special, non-marketable Treasury securities that may be bought only by state and local governments. States and localities invest in SLGS temporarily with the proceeds of their own bond issues while they are waiting to spend the proceeds on their intended uses. Because of complex and arcane federal tax rules related to the investment of municipal bond proceeds, states and localities have few practical alternatives to SLGS for temporarily investing bond proceeds. Consequently, the changes in the proposal are of great concern to state and local governments who issue bonds to finance schools, roads, hospitals, airports, water and sewer systems and a variety of other vital infrastructure projects.

We appreciate the discussion in the proposal regarding the administrative burdens currently in place at the Bureau of Public Debt (BPD) with regard to facilitating the SLGS Program. We believe that some of the suggested changes have merit and should be addressed. However, we take great exception to a number of the proposed changes.

We support the idea of using SLGSafe, exclusively, to manage the administrative problems currently in place at the BPD. Specifically we recognize the problems inherent in receiving subscriptions/cancellations through fax transmissions, and believe that the use of a web-based system will curtail many of the problems that were mentioned in the proposal. The use of SLGSafe will also assist with the cash management concerns that were discussed in the proposal.

There is merit in the pricing of the SLGS table in the morning, rather than the evening before, and for providing some type of certification that the subscription relates to a transaction. However, we suggest that the Bureau of Public Debt carefully review the manner in which a certification program would work to ensure that it respects the procedures that many jurisdictions have in place. We believe the comments by GFOA, LPPC and NABL on this point should be seriously considered.

In general, we are very concerned that issuers will incur greater costs due to these proposed changes, and that the program will provide less flexibility for SLGS users. This is counterproductive to the mission of the SLGS Program and will have the negative outcome of pushing issuers into the open market purchases. Also, the notion that SLGS are a 'cost free' service available to state and local governments is not accurate, as the Treasury benefits significantly from the five basis point discount, which could in turn cost the Treasury nearly $80 million a year in interest costs.

Some of our specific concerns are highlighted below:

- The inability to cancel SLGS at any time without penalty. We believe that this is harmful to users of SLGS. There is no new evidence than what was reviewed in 1996 when this practice was put in place, to make such a dramatic change.

- We believe having the trading day exist from 10 a.m.- 6 p.m. EST is not conducive to meaningful business practices. Most specifically, closing the day at 6 p.m. does not take into account issuers who need the flexibility to finalize their subscription late in the day, and discriminates against issuers in other time zones, especially on the West Coast. Additionally, smaller governments and school districts, conduct business after working hours (e.g., school board meetings held in the evening). These jurisdictions would be at a severe disadvantage if the SLGS window were to close at 6 p.m.

- Treasury should continue to permit investment of funds, at rates higher than the yield at which they had been invested. There are safeguards that could be in place, including setting the rates in the morning, that will assist with Treasury's concern on this matter. Issuers should have the ability to maximize their investment return, including safeguarding the ability to redeem and reinvest in other SLGS.

- Inability to change SLGS delivery date. For many reasons, the delivery date of SLGS may need to change. The proposal does not respect the problems associated with a transaction that are out of an issuer's hands.

- This is a major regulatory change, and needs to be treated as such, including holding hearings and having a serious discussion regarding the fiscal impact that the proposed changes would have on local and state governments. We strongly encourage the Treasury Department to work with issuers and others in the marketplace to ensure that the proposed changes enhance rather than harm the SLGS Program.

- We also believe that there should be a standard notification practice that addresses when the SLGS window closes due to the federal debt limit being met. Treasury should create an alert system and give issuers adequate warning that the SLGS window will be closing.

We again, support the more extensive comments that have been submitted by other issuers organizations including the GFOA, LPPC, NABL, NCHFFA and NAHEFA, and we trust that the Bureau of Public Debt will carefully review all submitted comments and ensure that changes to the SLGS Program do not injure the parties for which they were created.

If you have any comments or questions about this letter, please contact Susan Gaffney, Director of GFOA's Federal Liaison Center at 202-393-8020 x209.

Sincerely,

American Public Power Association, Scott Nielson, 202-467-2928
Council of Development Finance Agencies, Toby Rittner, 202-457-1128
Council of Infrastructure Financing Authorities, Richard Farrell, 202-371-9694
Government Finance Officers Association, Susan Gaffney, 202-393-8020
Large Public Power Council, Noreen Roche Carter (Sacramento Municipal Utility District), 916-732-6509
National Association of Counties, Alysoun McLaughlin, 202-942-4254
National Association of Higher Educational Facilities Authorities, Charles Samuels, 202-434-7311
National Association of State Treasurers, Chris Allen, 202-624-8595
National Council of Health Facilities Finance Authorities, Charles Samuels, 202-434-7311
National League of Cities, David Parkhurst or Janine Jones-Smith, 202-626-3194
US Conference of Mayors, Larry Jones, 202-861-6709